



STATE OF NORTH CAROLINA
OFFICE OF THE GOVERNOR
20301 MAIL SERVICE CENTER • RALEIGH, NC 27699-0301

BEVERLY EAVES PERDUE
GOVERNOR

July 7, 2009

Dear (Legislator name):

As a former legislator and budget writer, I understand the challenges facing legislative leaders in crafting a state budget, challenges magnified by the impact of our country's deepest recession since the Depression.

We must make deep cuts, even to many good programs in our state, but we must also raise additional revenue. Yet I do not believe that the revenue packages presented by either the House or the Senate are sufficient to meet our goal of protecting North Carolina's classrooms and vital services.

We must remember that the decisions we make today are not about our political future, they are about our children's future.

Today I would like to present you with a pathway to achieving that goal, which includes elements from each of the existing proposals and is based on four key principles:

- Protection of education and core public safety and health care services
- Fairness to working families
- Modernization of the tax code with permanent rate reduction
- Targeted tax relief

Combined with \$3.8 billion in cuts and \$2.4 billion in federal recovery funds, the chart attached provides a pathway to balance our state budget with more spending cuts than revenue increases while protecting the most vital services, particularly our public schools.

I have included a number of substantial steps to modernize our tax code, steps which will enable us to make permanent reductions to sales, income and business tax rates. I have used reasonable legislative estimates for these modernizing changes. But more exact estimates cannot be made until specific statutory language is drafted.

I also strongly believe that our tax modernization steps should be implemented in ways that are fair to our working families.

That is why we need the guarantees of child, family and home-related credits, as well as targeted tax relief for the middle class in our income tax structure.

As I pointed out last week, I do not intend to micromanage the General Assembly's process and do not care about who gets credit for each concept. I am open to reasonable adjustments to the pathway detailed below, but we must ensure enough revenue to protect public schools.

The Continuing Resolution has only eight days remaining. I urge all of you to work together toward a rapid resolution. Operating without a budget in the new fiscal year, as North Carolina already has been doing for a week, costs the state approximately \$5 million each day in lost revenue and savings. It also leaves local governments, school districts, service providers and families across North Carolina in limbo regarding what resources and services will be available to them.

After this year's budget, we must continue to work toward comprehensive, permanent fiscal and tax reform. My Budget Review and Accountability Commission (BRAC) already is beginning to review state spending and programs and will have a series of proposals for next year's short session.

The economic crisis demands that as leaders we stand up and make the tough decisions to move our state forward, but we cannot allow this crisis to devastate our children's education and our state's future.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bev Perdue", with a stylized, cursive script.

Bev Perdue

#	Short Description	2009-10	2010-11
1	<u>Personal Income:</u>	90.0	210.0
2	*Start with Adjusted Gross Income (AGI) as in 27 Other States		
3	*Include various child, home and family credits; no tax on social security		
4	*Reduce current rates from 6.0%, 7.0%, 7.75% to 5.5%, 6.75%, 7.5%		
5	*Emergency surcharge for >\$500,000 single or >\$1,000,000 married filing jointly for 2 Years		
6			
7	<u>Sales:</u>		
8	Emergency 1% Sales Tax Increase (effective 9-1-09 through 9-30-10 only)	843.3	253.0
9	Reduce Sales Tax on Existing Base to 6.5% effective 10-1-10	0.0	(189.8)
10	Transfer 0.1% of Existing and Expanded Local Base to State (effective 7-1-10)	0.0	113.0
11	Digital Click-throughs (effective 1-1-10)	7.1	17.8
12	Warranties, Installations and Repairs (effective 1-1-10)	122.0	244.0
13	Property and Some Personal Services (effective 1-1-10)	96.3	232.0
14	Amusements/Movies (effective 1-1-10)	15.8	31.6
15	Courier Services (effective 1-1-10)	36.5	91.1
16	Recreation and Entertainment (effective 1-1-10)	53.0	106.0
17	Storage (effective 1-1-10)	9.6	19.6
18	Luxury Services (cosmetic surgery, limos, chartered flights effective 1-1-10)	6.2	12.5
19	Sub-State Government Sales Tax Refund (effective 1-1-10)	0.0	71.0
20	Subtotal	1,189.8	1,001.8
21			
22	<u>Business:</u>		
23	Reduce Corporate Income Tax Rate from 6.9% to 5.9% (effective 1-1-11)	0.0	(52.0)
24	New Uniform Franchise Assessment on LLC's (effective 1-1-10)	59.0	131.1
25	Repeal State and Local Privilege License Taxes	(57.3)	(51.9)
26	Repeal Annual Report Fee and Fee Credit	(20.2)	(25.5)
27	Eliminate Corporate Income Tax Transfer to Public School Capital Fund	54.1	53.4
28	Repeal Other Credits Except New Economy Credits	6.2	17.2
29	Insurance Gross Premium Tax to 2.25%	59.1	93.8
30	Repeal Credits to Insurance Guaranty Association	0.0	17.0
31	Exempt Depreciable Equipment; Tax Supplies at General Rate	56.5	116.1
32	Limit Farm Equipment and Building Materials Exemptions	18.0	35.9
33	Unitary Reporting (effective 1-1-10)	20.0	46.0
34	Subtotal	195.4	381.1
35			
36	<u>Excise:</u>		
37	Cigarette and Other Tobacco Products Tax Increase (\$.50 cents effective 9-1-09)	187.5	225.0
38	Alcohol Taxes (beer 2 cents; wine 8 cents; liquor 2% effective 9-1-09)	46.6	56.0
39	Subtotal	234.1	281.0
40			
41	<u>Targeted Tax Relief:</u>		
42	IRC Update Changes	(41.7)	(49.7)
43	Small Business Tax Reduction (effective 1-1-10)	(12.0)	(24.0)
44	Earned Income Tax Credit to 6.0% (effective 1-1-10)	0.0	(14.0)
45	Expand College Savings Credit (effective 1-1-10)	(1.5)	(3.0)
46	Homebuyer's Credit (effective 7-1-09)	(20.0)	(20.0)
47	Film Credit (effective 1-1-10)	(12.5)	(25.0)
48	Department of Revenue Implementation Costs	(5.0)	0.0
49	Founder's Credit (effective 7-1-09)	0.0	0.0
50	Subtotal	(92.7)	(135.7)
51			
52	Total Adjustments	1,616.6	1,738.2